

Business Situation

Advance Estimates for the Second Quarter of 2003

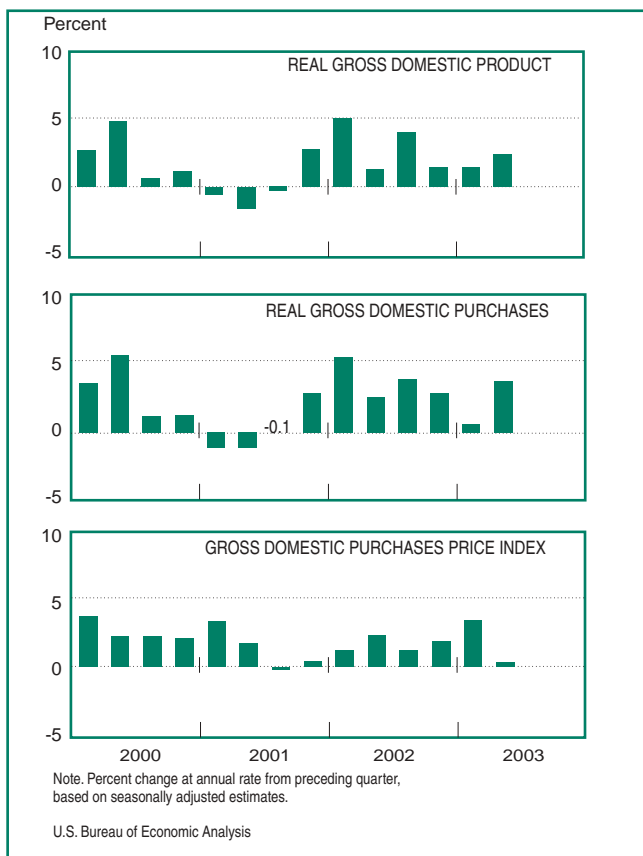
ACCORDING to the “advance” estimates of the national income and product accounts (NIPA’s), U.S. production stepped up in the second quarter of 2003, inflation slowed sharply, and real disposable income increased a little more than in the first quarter.

- Real gross domestic product (GDP) increased 2.4 percent in the second quarter after increasing 1.4 percent in each of the two preceding quarters (table 1 and chart 1).¹ Over the seven quarters since the

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

This article was prepared by Daniel Larkins.

Chart 1. Selected Measures: Change From Preceding Quarter



trough in real GDP in 2001, growth has averaged 2.6 percent; over the seven quarters following the trough in 1990, it averaged 3.1 percent.²

- The price index for gross domestic purchases rose only 0.3 percent after rising 3.4 percent. The slow-down mainly reflected a downturn in energy prices.
- Real disposable personal income increased 2.4 percent after increasing 2.1 percent.

Federal spending on national defense and consumer spending on durable goods each increased sharply in the second quarter after decreasing in the first; each

2. The trough in real GDP occurred in the third quarter of 2001. According to the National Bureau of Economic Research, the recession trough occurred in November.

Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002	2003	2002	2003	2002	2003	2002	2003
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,608.1	93.2	32.6	33.8	56.1	4.0	1.4	1.4	2.4
Less: Exports of goods and services	1,049.7	12.2	-16.1	-3.5	-8.4	4.6	-5.8	-1.3	-3.1
Plus: Imports of goods and services	1,603.3	12.8	28.1	-25.4	34.9	3.3	7.4	-6.2	9.2
Equals: Gross domestic purchases	10,114.6	93.9	70.8	15.2	93.9	3.9	2.9	0.6	3.8
Less: Change in private inventories	-17.9	13.9	7.0	-21.0	-22.7
Equals: Final sales to domestic purchasers	10,116.9	80.1	64.0	34.6	112.2	3.3	2.6	1.4	4.6
Personal consumption expenditures.....	6,726.0	67.5	28.0	33.0	55.1	4.2	1.7	2.0	3.3
Durable goods.....	1,057.9	51.7	-21.8	-5.2	52.5	22.8	-8.2	-2.0	22.6
Nondurable goods.....	1,979.2	4.9	24.2	28.9	0.3	1.0	5.1	6.1	0.1
Services.....	3,729.0	20.8	20.0	7.9	14.1	2.3	2.2	0.9	1.5
Private fixed investment.....	1,613.4	-1.0	16.9	-0.6	25.5	-0.3	4.4	-0.1	6.6
Nonresidential.....	1,191.7	-2.4	6.6	-13.2	19.6	-0.8	2.3	-4.4	6.9
Structures.....	213.5	-13.5	-5.6	-1.6	2.5	-21.4	-9.9	-2.9	4.8
Equipment and software.....	997.6	15.8	14.9	-12.2	17.7	6.7	6.2	-4.8	7.5
Residential.....	411.5	1.0	8.8	9.6	6.0	1.1	9.4	10.1	6.0
Government consumption expenditures and gross investment.....	1,768.4	12.3	19.4	1.7	31.7	2.9	4.6	0.4	7.5
Federal.....	668.9	6.4	16.3	1.1	36.4	4.3	11.0	0.7	25.1
National defense.....	448.9	6.7	10.7	-3.5	39.2	6.9	11.0	-3.3	44.1
Nondefense.....	220.4	-0.2	5.6	4.5	-2.4	-0.3	11.1	8.4	-4.1
State and local.....	1,100.5	5.9	3.4	0.6	-4.1	2.2	1.2	0.2	-1.5
Addendum: Final sales of domestic product	9,610.6	79.3	25.9	53.1	74.4	3.4	1.1	2.3	3.2

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

contributed about 1.7 percentage points to the second-quarter growth in real GDP (table 2).³ Nonresidential fixed investment and residential investment made smaller contributions to second-quarter growth, while imports, exports, and inventory investment subtracted from growth.

National defense spending increased at an annual rate of 44.1 percent in the second quarter, the biggest increase since the Korean War. Compensation of military personnel increased substantially for the second quarter in a row, but most of the increase represented a step-up to a higher level of support services for installations, weapons, and personnel, including support services associated with the U.S. role in securing and reconstructing Iraq.⁴

Consumer purchases of durable goods increased at an annual rate of 22.6 percent. More than half of the

increase was accounted for by motor vehicles, which increased sharply after declining in the two preceding quarters. Above-average increases were also posted by furniture and household equipment and by "other" durable goods.

Nonresidential fixed investment posted its biggest increase in 3 years and contributed 0.69 percentage point to the growth of second-quarter real GDP. Equipment and software accounted for most of the increase, but structures also rose—the first increase in seven quarters. The increase in structures was mainly accounted for by oil-well exploration and development.

Residential investment increased for the sixth consecutive quarter. The increase, which contributed 0.28 percentage point to real GDP growth, mainly reflected a rise in brokers' commissions on sales of new and existing residences.

Imports of goods and services, which are subtracted in the calculation of GDP, increased, as foreign producers supplied an increasing share of domestic demand. At the same time, exports decreased. Together, these movements subtracted 1.56 percentage points from GDP growth.

Inventory investment swung from accumulation to liquidation in the second quarter, subtracting 0.77 percentage point from GDP growth. About the same amount had been subtracted from real GDP growth in the first quarter as a result of a slowdown in the pace of accumulation.

The advance estimates for the second quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.2 percent after increasing 2.3 percent.
- Real gross domestic purchases increased 3.8 percent after increasing 0.6 percent.
- The production of services and of structures increased at above-average rates in the second quarter, but the production of goods changed little (table 3).
- The personal saving rate slipped to 3.3 percent from 3.6 percent.⁵

5. The personal saving rate is measured as personal saving as a percentage of current-dollar disposable personal income. An estimate of the *national* saving rate (which is measured as gross saving as a percentage of gross national product) will be available at the end of August along with the "preliminary" estimates of the NIPAs for the second quarter.

Table 2. Contributions to Percent Change in Real Gross Domestic Product
[Seasonally adjusted at annual rates]

	2002		2003	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product.....	4.0	1.4	1.4	2.4
Percentage points at annual rates:				
Personal consumption expenditures	2.93	1.19	1.40	2.34
Durable goods	1.74	-0.72	-0.17	1.68
Nondurable goods	0.22	1.01	1.21	0.02
Services	0.97	0.90	0.36	0.64
Gross private domestic investment	0.55	0.93	-0.83	0.20
Fixed investment	-0.03	0.65	-0.02	0.97
Nonresidential	-0.08	0.24	-0.47	0.69
Structures	-0.62	-0.25	-0.07	0.11
Equipment and software	0.53	0.49	-0.40	0.58
Residential	0.05	0.41	0.45	0.28
Change in private inventories	0.58	0.28	-0.82	-0.77
Net exports of goods and services	-0.01	-1.59	0.78	-1.56
Exports	0.45	-0.59	-0.13	-0.30
Goods	0.28	-0.82	0.13	-0.17
Services	0.17	0.23	-0.25	-0.13
Imports	-0.47	-1.00	0.91	-1.26
Goods	-0.40	-0.71	0.81	-1.73
Services	-0.07	-0.30	0.10	0.47
Government consumption expenditures and gross investment	0.56	0.85	0.08	1.40
Federal	0.29	0.70	0.05	1.58
National defense	0.29	0.46	-0.15	1.69
Nondefense	-0.01	0.25	0.20	-0.10
State and local	0.27	0.15	0.03	-0.18

Note. More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

Table 3. Real Gross Domestic Product by Type of Product
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2003	2002		2003		2002		2003	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,608.1	93.2	32.6	33.8	56.1	4.0	1.4	1.4	2.4
Goods	3,762.0	80.4	-14.7	20.8	1.1	9.0	-1.6	2.2	0.1
Services	5,068.4	30.9	38.2	7.2	46.6	2.5	3.1	0.6	3.8
Structures.....	780.5	-10.9	4.8	6.9	4.8	-5.5	2.5	3.6	2.5
Addenda:									
Motor vehicle output.....	360.2	28.5	-13.3	-1.6	-0.6	37.1	-13.4	-1.8	-0.6
Gross domestic product less motor vehicle output	9,249.1	67.9	44.0	35.0	56.3	3.0	1.9	1.5	2.5
Final sales of computers						78.5	26.7	28.2	18.6
Gross domestic product less final sales of computers.....						3.6	1.2	1.3	2.3

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

Second-Quarter 2003 Advance NIPA Estimates: Source Data and Assumptions

The "advance" estimate for the second quarter is based on the following major source data; as more and better data become available, the estimates will be revised. (The number of months for which data were available is shown in parentheses.)

Personal consumption expenditures: Sales of retail stores (3), unit auto and truck sales (3), and consumers' shares of auto and truck sales (2);

Nonresidential fixed investment: Unit auto and truck sales (3), construction put in place (2), manufacturers' shipments of machinery and equipment other than aircraft (3), shipments of civilian aircraft (2), and exports and imports of machinery and equipment (2);

Residential investment: Construction put in place (2), single-family housing starts (3), sales of new houses (3), and sales of existing houses (3);

Change in private inventories: Trade and nondurable manufacturing inventories (2), durable manufacturing inventories other than semiconductors (3), and unit auto and truck inventories (3);

Net exports of goods and services: Exports and imports of goods and services (2);

Government consumption expenditures and gross investment: Some Federal outlays were available for 2 months, others for 3, State and local construction put in place (2), and State and local employment (3);

GDP prices: Consumer price indexes (3), producer price indexes (3), U.S. import and export price indexes (3), and values and quantities of petroleum imports (2).

BEA made assumptions for source data that were not available. Table A shows the assumptions for key series; a more comprehensive list is available on BEA's Web site at <www.bea.gov>.

Table A. Summary of Major Data Assumptions for Advance Estimates, 2003:II

[Billions of dollars, seasonally adjusted at annual rates]

	2003					
	January	February	March	April	May	June ¹
Private fixed investment:						
Value of new total private construction put in place less residential (including improvements) ...	217.6	216.5	221.6	218.9	217.3	216.9
Equipment and software:						
Manufacturers' shipments of complete aircraft	24.3	33.4	30.8	20.0	22.6	32.3
Residential structures:						
Value of new residential construction put in place:						
Single-family	290.1	289.1	288.2	287.2	286.4	288.5
Multifamily	33.4	33.7	33.4	33.4	33.9	34.1
Change in private inventories:						
Change in inventories for nondurable manufacturing	9.4	24.7	5.4	0.6	15.0	-1.2
Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment.....	3.7	28.2	26.3	-14.7	-18.3	7.3
Net exports: ²						
Exports of goods						
U.S. exports of goods, international-transactions-accounts basis	685.7	694.9	699.5	686.8	691.0	703.5
Excluding gold.....	681.3	691.1	696.4	682.9	685.8	697.7
Imports of goods:						
U.S. imports of goods, international-transactions-accounts basis	1,224.0	1,218.7	1,269.7	1,243.1	1,252.3	1,263.3
Excluding gold.....	1,221.6	1,216.1	1,267.6	1,240.2	1,248.7	1,257.6
Net exports of goods	-538.3	-523.9	-570.1	-556.3	-561.3	-559.8
Excluding gold.....	-540.3	-525.0	-571.2	-557.3	-563.0	-559.9
Government:						
State and local:						
Structures:						
Value of new construction put in place.....	198.8	194.7	190.4	190.6	188.3	189.5

1. Assumption.

2. Nonmonetary gold is included in balance-of-payments-basis exports and imports but is not used directly in the estimation of NIPA exports and imports.

Prices

Inflation slowed in the second quarter. Prices of goods and services purchased by U.S. residents increased only 0.3 percent after increasing 3.4 percent (table 4). The slowdown mainly reflected a sharp downturn in energy prices; excluding food and energy items, prices increased 0.7 percent after increasing 1.8 percent (chart 2). A Federal pay raise for military and civilian personnel had added about 0.2 percentage point to the first-quarter increase.⁶

Prices of goods and services purchased by consumers increased 0.9 percent, almost 2 percentage points less than in the first quarter. The slowdown was mainly accounted for by downturns in gasoline and fuel oil prices. Food prices increased more than in the first

6. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Table 4. Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (1996=100)]

	2002		2003	
	III	IV	I	II
Gross domestic product	1.0	1.8	2.4	1.0
Less: Exports of goods and services	3.5	0.9	3.9	1.2
Plus: Imports of goods and services.....	4.4	0.9	11.7	-3.9
Equals: Gross domestic purchases	1.2	1.8	3.4	0.3
Less: Change in private inventories
Equals: Final sales to domestic purchasers	1.3	1.8	3.5	0.2
Personal consumption expenditures	1.7	1.8	2.7	0.9
Durable goods	-1.9	-2.2	-3.7	-3.8
Nondurable goods	0.6	1.2	4.6	-1.9
Services	3.0	3.0	3.1	3.3
Private fixed investment	-0.9	1.8	1.9	-1.4
Nonresidential	-1.3	0.4	-0.4	-1.6
Structures	0.4	2.3	4.1	-1.4
Equipment and software	-1.9	-0.2	-1.8	-1.7
Residential	0.0	5	7.4	-1.1
Government consumption expenditures and gross investment.....	1.4	1.6	7.9	-0.7
Federal	1.3	0.3	9.8	0.6
National defense	1.5	1.2	9.3	0.5
Nondefense	1.0	-1.2	10.9	1.0
State and local	1.5	2.2	6.9	-1.5
Addenda:				
Gross domestic purchases:				
Food	0.7	1.8	1.8	2.4
Energy	3.8	8.8	52.6	-13.3
Less food and energy	1.2	1.5	1.8	0.7
Personal consumption expenditures:				
Food	0.9	1.8	1.7	2.4
Energy goods and services ¹	3.3	7.6	46.4	-7.8
Less food and energy	1.8	1.5	0.8	1.2

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE. Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

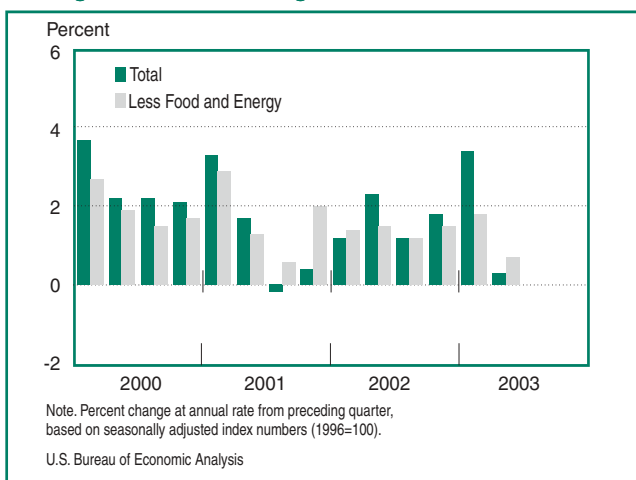
quarter. The prices of other consumer purchases increased 1.2 percent after increasing 0.8 percent. Prices of services increased about the same as in the first quarter. Prices of durable goods continued their down-trend; since the first quarter of 1995, these prices have decreased at an average annual rate of 2.1 percent.

Prices of private fixed investment and of government consumption expenditures and gross investment decreased in the second quarter after increasing in the first. In private fixed investment, prices of equipment and software and of structures decreased. Since the beginning of 1995, equipment and software prices have increased only twice and then only slightly. Prices of structures, in contrast, had increased in each of the four preceding quarters.

Prices paid by governments decreased 0.7 percent after increasing 7.9 percent. The large first-quarter increase had reflected the spurt in energy prices and the pay raise for Federal employees.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 1.0 percent after increasing 2.4 percent. This index increased more than the price index for gross domestic purchases because export prices increased while import prices fell. The fall in import prices was dominated by petroleum prices.

Chart 2. Gross Domestic Purchases Prices: Change From Preceding Quarter



Personal Income

The growth of real disposable personal income (DPI) accelerated a little in the second quarter despite a slowdown in the growth of current-dollar DPI (chart 3). The divergence reflected the sharp slowdown in consumer prices.⁷

Personal income, which is measured only in current dollars, increased \$74.4 billion (or 3.3 percent) after increasing \$82.3 billion (3.7 percent) (table 5). The slowdown reflected the following:

7. The implicit price deflator for personal consumption expenditures is used to deflate DPI.

• A slowdown in wage and salary disbursements by service industries and by government. The slowdown in government mainly reflected the first-quarter pay raise for Federal workers. Government wages and salaries were boosted in both the first and the second quarters by increases in pay for reservists called to active duty and by family separation allowances and imminent danger pay for military personnel. Federal civilian pay was boosted in the

Chart 3. Selected Personal Income and Saving Measures

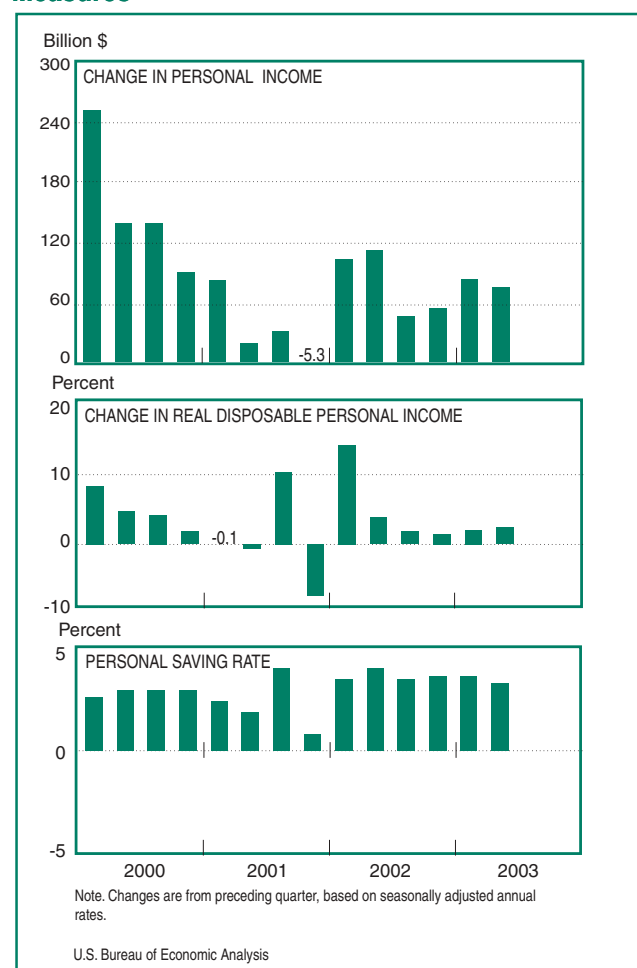


Table 5. Personal Income and Its Disposition

[Billions of dollars; seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	2003		2002		2003	
	II	III	IV	I	II	
Wage and salary disbursements	5,093.9	10.1	15.7	46.4	24.4	
Private industries	4,203.6	1.4	7.4	30.8	15.1	
Goods-producing industries	1,114.2	-6.1	-5.9	2.0	2.9	
Manufacturing	749.2	-7.4	-5.9	0.3	-3.1	
Distributive industries	1,119.5	2.5	-3.2	2.3	2.6	
Service industries	1,969.9	4.9	16.6	26.3	9.7	
Government	890.3	8.7	8.3	15.6	9.3	
Other labor income	645.0	13.4	12.7	9.0	5.8	
Proprietors' income with IVA and CCAAdj	803.5	11.2	12.9	12.8	19.1	
Farm	15.2	3.2	1.0	2.5	1.0	
Nonfarm	788.3	8.0	11.9	10.3	18.1	
Rental income of persons with CCAAdj	116.4	-9.4	-13.5	-3.7	-10.5	
Personal dividend income	459.0	7.0	6.5	7.4	7.8	
Personal interest income	1,081.6	-1.6	0.2	-5.1	5.8	
Transfer payments to persons	1,364.8	15.8	20.7	21.7	24.0	
Less: Personal contributions for social insurance	394.9	1.7	1.5	6.1	2.0	
Personal income	9,169.2	44.9	53.6	82.3	74.4	
Less: Personal tax and nontax payments	1,085.5	-22.8	-8.9	-12.9	8.3	
Equals: Disposable personal income	8,083.7	67.7	62.6	95.1	66.1	
Less: Personal outlays	7,813.1	105.1	57.7	86.9	85.5	
Equals: Personal saving	270.6	-37.4	4.9	8.2	-19.4	
Addenda: Special factors in personal income:						
In government wages and salaries:						
Federal pay raise	7.0	0.0	0.0	6.3	0.7	
Federal civilian retroactive pay raise	1.6	0.0	0.0	0.0	1.6	
Reservists' pay	10.5	-0.2	-1.0	3.3	4.9	
In transfer payments to persons:						
Social security retroactive payments	0.0	0.0	2.0	-2.0	0.0	
Cost-of-living adjustments in Federal transfer programs	7.6	0.0	0.5	7.1	0.0	
Earned-income credit	3.9	0.0	0.0	3.9	0.0	
In personal contributions for social insurance:						
Increase in taxable wage base	1.4	0.0	0.0	1.4	0.0	
Change in premium for supplementary medical insurance	2.1	0.0	0.0	2.1	0.0	
In personal tax and nontax payments:						
Federal tax law changes	-5.2	0.0	0.0	-5.2	0.0	

NOTE: Most dollar levels are in NIPA table 2.1.

IVA Inventory valuation adjustment

CCAAdj Capital consumption adjustment

second quarter by a retroactive pay adjustment for civilian employees.

- A bigger decrease in rental income of persons in the second quarter than in the first, as mortgage refinancing costs accelerated. (Mortgage closing costs and other expenses are subtracted in the calculation of rental income.)

The effect of these developments on personal income was partly offset by an upturn in personal interest income that reflected a smaller decrease in interest rates and by a step-up in proprietors' income. Personal

income growth was also boosted by a slowdown in personal contributions for social insurance. In the first quarter, these contributions had been raised by

- An increase in the social security taxable wage base for employees and the self-employed (from \$84,900 to \$87,000), and
- An increase in the premium for supplementary medical insurance (Medicare B).

Personal tax and nontax payments turned up in the second quarter, as Federal nonwithheld taxes decreased much less than in the first quarter.